



Annual Report
and Accounts
1996

—
*In tune
with the people,*

*in tune
with the times.*
—

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**King Fahad Bin
Abdulaziz Al-Saud**

The Custodian of the
Two Holy Mosques



**His Royal Highness
Prince Abdullah Bin
Abdulaziz Al-Saud**

Crown Prince, First Deputy
Premier and Head of the
National Guard



**His Royal Highness
Prince Sultan
Bin Abdulaziz Al-Saud**

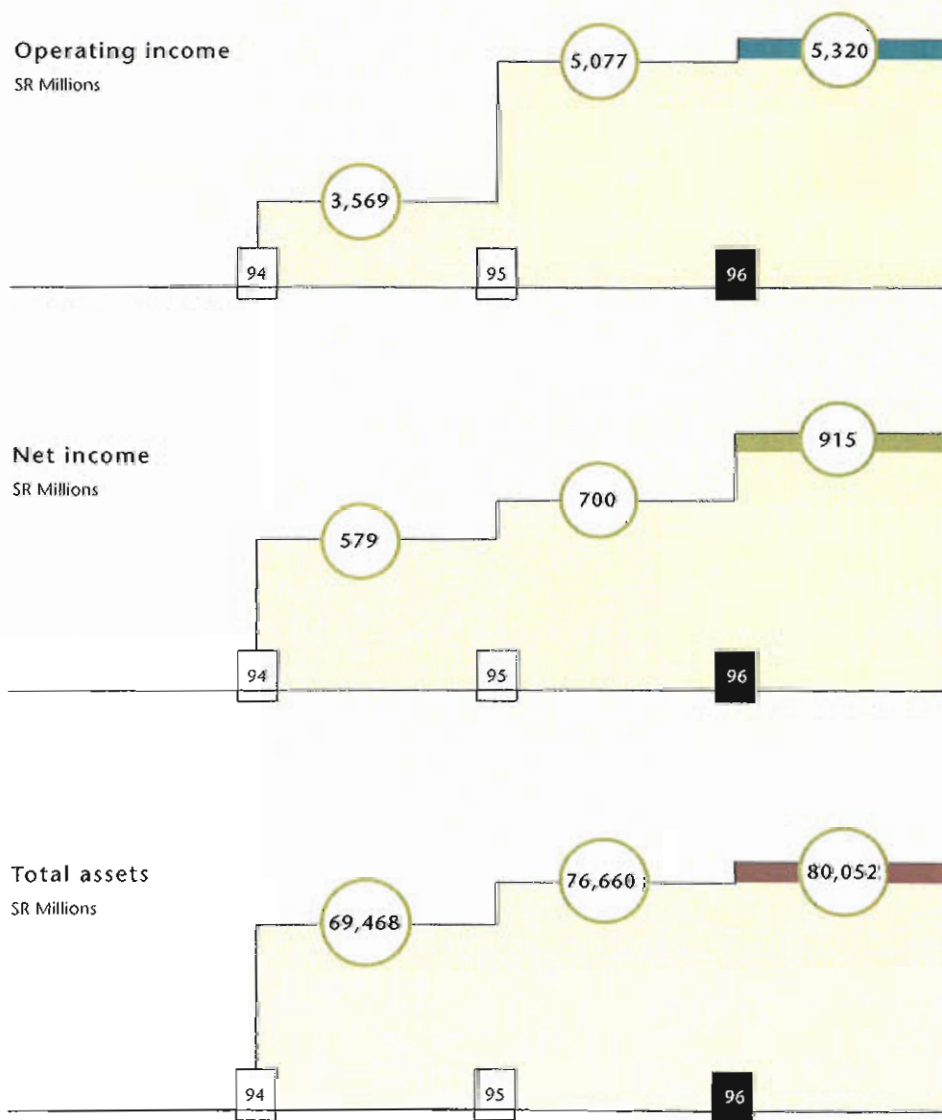
Second Deputy Premier
Minister of Defence and Aviation
and Inspector General

Key Facts

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Saudi Arabia's oldest bank;
A network of 253 branches Kingdomwide;
38 branches dedicated to Islamic banking;
Since 1995 Private Banking's assets under management have risen by more than 200%;
262 Al - Ahli Express ATMs in service;
4,300 Point of Sale terminals in operation;
A 31% share of all Visa and MasterCard transactions in the Kingdom;
NCB's Visa Travel Money card provides access to 285,000 ATMs globally;
NCB has approximately 600 correspondent banks worldwide, and operates over 440 accounts for foreign banks in Saudi Riyals and US\$;
NCB handles almost one quarter of the Kingdom's Letter of Credit business;
The largest and most modern Treasury Dealing Room in the Middle East;
27 mutual funds and more than 25,000 client accounts;
NCB's Global Trading Equity Fund is a leader in Sharia-compliant funds;
62% Saudisation bankwide;
214 Saudi graduates recruited in 1996;
ISO certified for data processing technology.

Financial Highlights

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Our Vision

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Firm foundations provide
the impetus to move forward.

NCB is the leading bank in Saudi Arabia;

NCB's purpose is to enhance the value of the firm and to
serve society;

NCB is the first choice for customers and for talented employees;

NCB is primarily a consumer bank providing deposit, investment and
innovative, tailored asset products to retail, affluent and high
net worth customers;

NCB engages selectively in corporate business with a full range of
financial services for the commercial segment and corporate
finance services for large corporate clients. NCB is building
a diversified portfolio with returns commensurate with the risks;

NCB's core values are customer service, reward for performance
and teamwork.

Chairman's Statement



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**With a solid management structure
in place, the Bank is well
attuned to customers' needs.**

On behalf of everyone at The National Commercial Bank, I am pleased to report that 1996 has been a year of steady and sustained progress on all fronts, allowing us to maintain our position as the leading bank in Saudi Arabia and the region.

Last August, after several years' absence from the Bank, I was proud to take up the roles of Chairman and General Manager and would like to express my sincere appreciation of the outstanding contribution made by my brother, Sheikh Mohammed Salim Bin Mahfouz, and his dedicated team over this period.

My message to you is that the strategy we have in place will be vigorously pursued and that the breadth and depth of management in all areas will ensure we move forward prudently and efficiently and will stay attuned to the needs and aspirations of our customers. It is gratifying to note that there is widespread recognition in the marketplace that NCB is setting new standards in financial services.

The Ministry of Finance and National Economy and the Saudi Arabian Monetary Agency have continued to extend support and encouragement to the banking community as a whole. As responsible members of this community, the management of NCB are strongly committed to maintaining the highest

personal and corporate standards within the Bank. It is a responsibility we take to heart and I am confident that, under the guidance of the Custodian of the Two Holy Mosques King Fahad Bin Abdulaziz Al-Saud, HRH Crown Prince Abdullah Bin Abdulaziz Al-Saud, First Deputy Premier and Head of the National Guard, and HRH Prince Sultan Bin Abdulaziz Al-Saud, Second Deputy Premier, Minister of Defence and Aviation and Inspector General, the appropriate support and guidance will always be forthcoming.

On behalf of The National Commercial Bank and its staff, I take this opportunity to thank our customers for their continued support and encouragement. By keeping in tune with their needs, we will continue to develop new products and services which meet and fulfil their changing aspirations and objectives.

To the Bank's staff, I offer sincere thanks for their valuable contribution to an excellent performance during the year. My colleagues in management have spared no effort in developing and implementing new initiatives to keep NCB at the forefront of the domestic and regional banking industry.

In the year ahead, we will be looking to consolidate the considerable success already achieved, broaden the scope of our operations, and improve further the quality of our customer service.

Khalid Salim Bin Mahfouz
Chairman

Deputy Chairman's Statement

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**Training and investment in technology
are central to raising our levels of
service, skills and knowledge.**

Managing change is one of the single most important issues confronting senior management in any organisation. However, within NCB we are fortunate to have in place a dedicated and professional team who have guided the Bank through a period of profound change. The investment in time, people and systems has been considerable, but I am delighted to say the effort has been worthwhile. As a result of the enthusiasm and hard work at all levels, the Bank has emerged as a leaner, fitter and more focused entity.

In 1996, we have maintained steady progress in the development of our business and it is satisfying to note that the financial results reflect the success of our endeavours. Profitability has been driven by an increase in revenues resulting from still higher standards of service and the introduction of new products. But behind these results are a number of less measurable achievements which deserve to be noted.

Saudisation is an ongoing, deeply held commitment to which we have devoted much time and energy – not merely in terms of headcount but more importantly in terms of the quality of people we recruit. By the end of the year, Saudisation had reached 62% bankwide.

Training and career development have been, and will continue to be, prime factors in raising standards of service, skills and knowledge among both our male and female staff alike. In this year alone we attracted 214 graduates, many of whom have gone on to enrol in our one year traineeship. Our investment in people is a continuing process for the future success of the Bank and, in a performance culture such as ours, rewards are commensurate with achievement.

For NCB, Ladies Banking has become an increasingly important part of our business. We recognise the emergence of a sophisticated and discriminating clientele whose needs we have been especially active in meeting. Our female relationship managers provide a highly professional service in an attractive banking environment, capitalising upon the spirit of change which pervades the Bank.

In a highly competitive marketplace, technology is revolutionising our systems and procedures, creating exciting opportunities to deliver new products and an ever

improving service to a growing customer base. Our systems are among the most powerful and advanced of any bank's in the region. With these in place, we look forward to reaping the benefits of the hard work undertaken in 1996.

In the wider context, the Bank is firmly committed to the development of Saudi Arabia and the well-being of its people. We work closely with the authorities in the pursuit of their objectives and maintain our policy of donating significant amounts to charities across the Kingdom.

In 1997, we will continue to focus on the engines behind our growth – people, systems and technology. Of particular importance will be the development and nurturing of NCB's senior management of the future, drawing upon our pool of in-house talent.

Finally, I would like to express my sincere gratitude to my colleagues for their support and for their efforts in making these achievements possible and look forward to playing my part in implementing a strategy which forms the blueprint for a bright and challenging future.

Abdullah Salim Bahamdan
Deputy Chairman

The General Management Committee

البنك التجاري الدولي
THE INTERNATIONAL COMMERCIAL BANK

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Khalid Salim Bin Mahfouz
Chairman and General Manager

The General Management Committee



Abdullah Salim Bahamdan
Deputy Chairman and
Chairman of the Executive
Committee



Omar Abdul Qader Bajamal
Chief Operating Officer and
Member of the Executive
Committee



Mohammed Salim Al-Batati



Abdulhadi Ali Shayif
Member of the Executive
Committee



Abdulrahman Khalid Bin Mahfouz
Member of the Executive
Committee



Sultan Khalid Bin Mahfouz



Dr. Abdullah Mohammed Basudan



Salah Eldin Ahmed Idriss
Member of the Executive
Committee



Saleh Hussein Kaki

Chief Operating Officer's Review of Operations

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Omar Abdul Qader Bajamal
Chief Operating Officer

1996 has proved to be a highly satisfactory year for NCB and I am pleased to say that the spirit of progress and change, initiated in 1993, has been maintained. The past few years have seen a critical examination of the way in which we have been doing business at all levels and, as a result of those findings, we have been able to implement a series of far-reaching initiatives to increase our effectiveness.

During the year, we introduced the concept, spearheaded by Corporate Banking, of 'total relationship management' right across the Bank's operations. The objective is to deliver a more integrated approach which involves the provision of the full range of products and services through a business relationship manager assigned to each client. In this way, the manager can call upon technical support in any area – tailor-made to fit a customer's specific requirement.

Much has already been achieved, but we must hasten the rate of change by devoting our time and energy to enhancing standards throughout the Bank still further. Our systems are constantly under review to ensure we operate as efficiently and responsibly as possible. Our credit policy is a particular case in point where we have introduced stringent criteria and guidelines for both the private and commercial sectors at a time when the economy is beginning to revive.

The sustained inflow of substantial oil revenues has provided a welcome increase in the liquidity of the domestic economy. The resulting improvement in the state of the government's finances has brought about a sharp reduction in outstanding arrears to the agricultural and construction sectors. For banks, the net effect has been a fall in the demand for loans which has led to funds being channelled into government securities. Against this positive background, the Saudi banking sector has generally performed well.

Highlights of the Year

NCB's net profit increased by a highly satisfactory 30.7% from SR 700 million in 1995 to SR 915 million for 1996. This impressive performance is due, in part, to a 34.2% hike in the differential between commission income and expense, a 4.5% rise in income from investment securities and a 57% surge in income from banking services. Total customer deposits grew by 3.7% and total assets by 4.4%. These results clearly demonstrate the solid progress achieved by all the Bank's divisions and reinforce NCB's pre-eminent position in the marketplace.

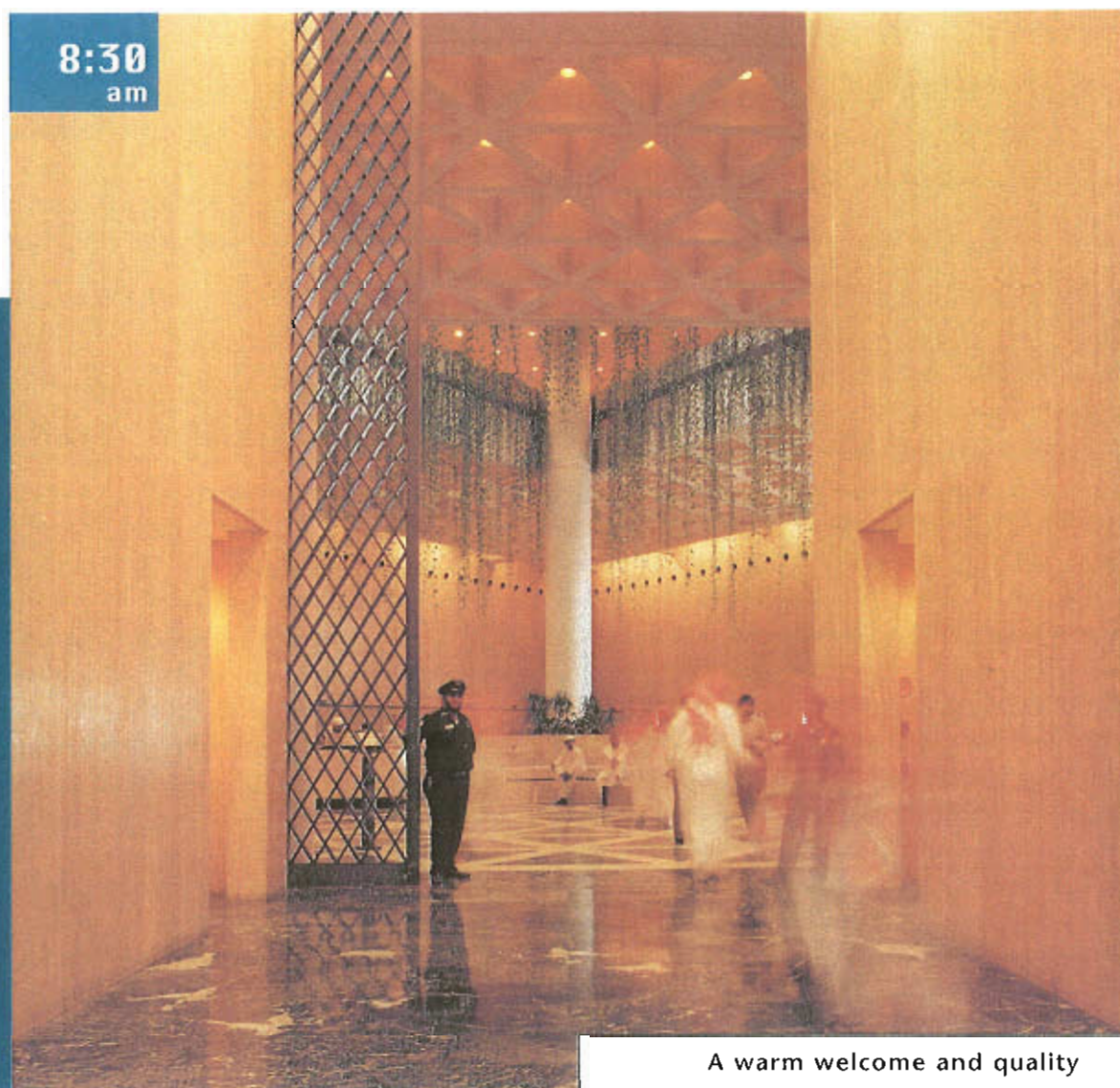
Retail Banking

NCB's retail business provides a major proportion of the Bank's income and lies at the heart of its operations. As such, it creates a primary conduit for the delivery of a full range of products from all areas of the Bank.

Each branch in the Bank's extensive network has been fully automated and now operates on-line with real-time systems. Back office functions have been centralised at three regional processing centres and staffing levels have been further reduced by 23%. This has resulted in a more efficient and responsive organisation.

In line with the Bank's customer driven strategy, a Product and Business Development Group was created to ensure efforts are more precisely directed towards key products and market segments. During the year, we developed and launched the 'Al Ajyal' programme targeted specifically at the youth market between the ages of 18 and 25. This product offers customers the means and support to manage their finances effectively and provides a truly value added service. Since its launch, 'Al Ajyal' has attracted a gratifyingly high level of customers and deposits.

In a measure designed to improve our customer contact functions, a queue management system was installed in the Jeddah Main Branch which has met with a customer approval rating of 91%.



A warm welcome and quality service ensure that customer satisfaction remains high.

The large volumes of business conducted at the Head Office branch in Jeddah require highly trained personnel and the most up-to-date technology.

The branch's newly installed queue management system is just one example of NCB adopting the appropriate technology to meet rising customer expectations.



Meeting clients' individual requirements is a team effort, drawing upon expertise from across the Bank.

NCB's dedicated Private Banking offices provide an attractive environment, with an atmosphere of comfort and confidentiality, in which relationships between client and banker

can flourish. The two new offices at Al Ahsa and Al Qassim have extended Private Banking's reach beyond the three main population centres.

Retail Banking continued

Changing needs and banking habits require that we continually assess our delivery methods to maintain our competitiveness and control our cost base. A further 65 ATMs have been installed during the year and overall transaction volumes have increased by 32%, compared with an industry average of 23%. In the last year we have extended the functionality of our ATMs, introducing an optional receipt facility, foreign transfers and credit card payments. Furthermore, our machines now accept all types of Visa and MasterCard credit cards.

In the latter part of 1996, Visa Travel Money (VTM) was introduced. This prepaid cash access product allows customers to withdraw local currency from any one of 285,000 Visa/Plus ATMs worldwide. NCB is the first and only bank in the Kingdom and just one of 15 worldwide to offer this unique new service.

By the end of 1996, NCB had over 4,300 Point of Sale terminals in operation and maintained a dominant 31% share of all Visa and MasterCard transactions in Saudi Arabia. This compares with 20% for 1995.

Substantial progress continues to be made in electronic and telephone banking with NCB's PC Banking and NCB Direct services becoming fully operational during 1996. NCB Direct operates through a 'smartphone' with an integrated touch screen terminal which provides customers with direct access to their accounts 24 hours a day, at home or in the office. NCB's 24 Hour Call Centre continues to provide an important point of contact for our customers and now handles more than 2,300 calls each day.

A sophisticated 'Loan by Phone' programme, with a streamlined approval process, has been developed and tested prior to launching early in 1997. For employees of large corporate institutions, a personal loan programme was initiated which enhances the range of services available to those organisations using the Bank's payroll services. The Consumer Asset Portfolio for salaried employees continued to grow as a result of the Bank's long standing relationships with their employer groups.

The continuing investment in human resources and technology is bringing the Bank still closer to its customers and building a knowledge base which anticipates and meets their aspirations. During 1997, further new products and services will be introduced, targeted at precise market segments including ladies, teenagers and children.

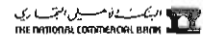
Corporate Banking

The three groups within Corporate Banking provide comprehensive financial solutions and banking products for businesses of all sizes. They range from short-term trade financing to long-term project financing, from traditional current accounts to modern foreign exchange hedging. In the area of corporate finance, NCB has successfully handled intricate restructurings, syndications, underwriting, placements and financial advisory assignments.

A common thread throughout 1996 has been our constant drive to draw ever closer to our customers so as to satisfy and even anticipate their needs. Although our approach may seem to vary from assignment to assignment, our objective is always the same – to know an organisation as thoroughly as possible and provide outstanding service. Intelligent support and rapid decision making are hallmarks of NCB's dedicated approach to its corporate markets.

Chief Operating Officer's Review of Operations

(continued)



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Understanding both the client and the market allowed us, for example, to turn a real estate customer's future rental payments into a fixed rate security and sell the issue into the market. This SR 720 million transaction was the first of its kind in the Kingdom.

In 1996, NCB also acted as co-lead underwriter of the US\$ 500 million (SR 1.9 billion) syndicated facility for the Saudi Consolidated Electric Co. of the Eastern Province (SCECO-East). The package will provide long-term financing for the 'Ghazlan II Project', involving the construction of a US\$ 1.4 billion (SR 5.3 billion) power plant with a capacity of 2,400MW.

Furthermore, the Bank co-underwrote facilities valued at more than US\$ 160 million in favour of the Voest-Alpine Group of Austria to support the construction of a new US\$ 1.7 billion (SR 7.0 billion) flat steel plant for Saudi Iron & Steel Co. (Hadeed).

These are just a few examples of financing packages which NCB has provided during the year, in support of major entities requiring financial services. Through full access to a variety of products and services, the Corporate Banking Group seeks to provide total solutions to its customers which, in turn, represent the largest corporate entities operating in the Kingdom of Saudi Arabia.



Treasury

1996 was an excellent year for NCB Treasury's clients. Efforts to expand our client business generated a 250% increase in revenue and a doubling of foreign exchange income. At the same time, our share of the physical gold market rose by 350%. During the year we opened an office in Dammam and recruited three experienced sales professionals to service our growing customer base. Our trading businesses in Jeddah and Bahrain also generated excellent results. To support the significant increase in trading activity we recruited five seasoned traders in FX, Fixed Income and Options. In just three short years we have built one of the strongest, most active treasuries in the region.

This admirable performance is a direct result of the substantial investment in our state-of-the-art dealing room and our team of top-flight professionals. This powerful combination makes NCB one of the region's leading players in treasury and capital markets. To sustain this position we have committed ourselves to continuous improvement through training and new product development. This ensures that NCB will continue to offer world class service to its customers.

Ambitious targets have been put in place for 1997, including the launch of NCB Treasury Direct, an electronic distribution system for treasury transactions, the doubling of our share of client FX and interest rate business, a 50% increase in our share of physical gold business and the consolidation of NCB Treasury as the market leader in Saudi riyal and US dollar derivatives. These plans reflect our goal to make NCB the treasury of choice by staying in tune with our customers and the world's financial markets.

Investment Services

NCB maintained its dominant position during 1996 as the Kingdom's leading provider of mutual funds, with 27 funds available to both individual and institutional investors. Of these funds, 17 are open-ended and include 4 which comply strictly with Sharia principles. We service more than 25,000 client accounts using a new state-of-the-art client administration system which will comfortably support the growth of our business for the foreseeable future.

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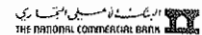
NCB is pro-active in promoting
and developing a wide range
of mutual funds.

At each branch, a fully
qualified investment
officer is available to
provide advice and
guidance on the full
range of NCB's

investment products.
This growing series of
funds is designed to meet
a variety of investment
criteria with differing
rates of risk and return.

Chief Operating Officer's Review of Operations

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Investment Services continued

NCB takes a pro-active role in promoting and developing mutual funds locally and was a major participant in the SAMA-sponsored Mutual Fund Symposium. This annual conference is designed to educate and inform investors about an industry which is booming worldwide.

The Bank has developed a series of Capital Protected Funds. The first was launched in late 1995 and reached its target return of 12% by October 1996. The second was oversubscribed just eleven days after its launch in mid-September. At the end of 1996, another new closed-end fund was launched – the NCB Durrat Al-Arus Fund. Denominated in Saudi riyals, this is NCB's first local real estate fund and it too has capital protection features.

NCB Global Trading Equity Fund is internationally recognised as one of the most successful Sharia-compliant funds available worldwide and by mid-1996 had assets in excess of US\$ 100 million. The innovative NCB Al-Salam Commodity Fund was introduced in June 1996 and is a clear example of our commitment to developing funds which satisfy local requirements.

The flow of new products is a result of our extensive knowledge of developments and investment opportunities available on a global basis, which we match to the specific needs of our customers. Delivery of world class products and services locally is our overwhelming priority.

Islamic Banking

The globalisation of the world's financial markets and the increase in cross-border trade continue to impact on the Islamic banking market. As a result of its strength and high levels of liquidity, a number of international institutions have entered the sector to take advantage of the substantial body of funds seeking acceptable investments.

During 1996, NCB's Islamic Banking consolidated its leading position by offering attractive financing and investment products which meet strict Sharia criteria. Our own Sharia Board was formed, consisting of leading scholars in the Kingdom, to ensure that our products and services conform to the most rigorous Islamic principles.

In addition to the standard non-interest banking services, NCB's Islamic Banking offers Musharakah, Mudaraba, personal and commercial Murabaha, Ijara and Istisna'a financing facilities to customers – subject to stringently applied risk assessment criteria. Our growing portfolio is focused primarily on the development of the national economy.

We opened two new branches wholly dedicated to Islamic banking which brings to 38 the number of such branches, covering 20 cities and towns Kingdomwide. Deposits at these branches registered a healthy increase over the year, whilst Mudaraba investment assets under management almost doubled. Our investment products include the acknowledged world leader in Islamic equity funds – the NCB Global Trading Equity Fund.

Exports are the lifeblood of the Kingdom and, in 1996, we initiated a number of petroleum financing agreements, the total value of which is expected to reach US\$ 200 million. We also took part in a number of major international syndicated transactions.

In order to maintain our leading position in Islamic banking, we continue to run in-depth staff training and development programmes to meet the challenges and opportunities ahead.

Chief Operating Officer's Review of Operations

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Private Banking

NCB Private Banking was established in 1993 to serve the high net worth segment of society. Its main objective is to identify and meet clients' needs as they evolve, while building long-term relationships which extend to future generations.

Essentially, this philosophy closely reflects the founding principles of the Bank – creating enduring partnerships built upon trust, confidence and integrity. Since 1995, assets under management have doubled and the client base has grown by more than 200%. With growth of this magnitude, NCB Private Banking has become a significant contributor to the Bank's revenue stream.

In 1996, two new dedicated Private Banking offices were opened at Al Ahsa and Al Qassim, bringing the total number of such offices to 5. NCB is the first Saudi bank to offer this service outside the major cities – a fact which reflects a belief in capitalising on the Bank's substantial franchise and commitment to the community.

Furthermore, we are vigorously responding to the growing requirements of our female clientele. Our team of highly trained female relationship managers offers an exceptional level of personalised banking, tailor-made investment services and individual financial advice to this burgeoning market sector.

Relationship management remains the backbone of our service. Our Saudi relationship managers have multi-cultural backgrounds and are trained to the highest standards. Nevertheless, it is the depth and breadth of management which permits NCB Private Banking to deliver consistently high levels of return and service through close communication with, and support from, all other sections within the Bank.

In keeping with a deeply rooted tradition of personal service, we seek to manage our clients' wealth according to their changing needs. The cycle begins with growth of wealth, evolves into wealth protection and, in time, we help plan the transfer of wealth according to individually tailored investment strategies.

But, most importantly, we try always to remain in touch with exceptional investment opportunities as they arise, both locally and internationally, to ensure optimum solutions to our clients' needs.

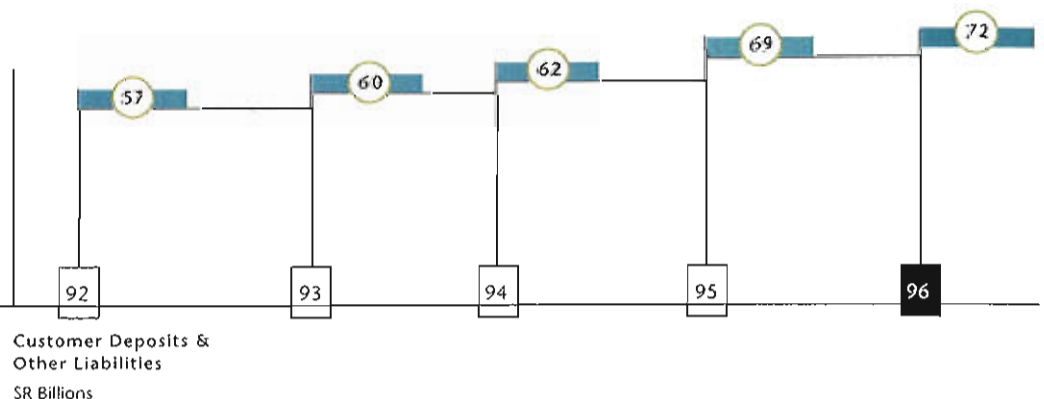
Systems & Operations

Customer focus has been the continuing priority in 1996 and has resulted in the implementation of several major initiatives. Substantial investments were made in five core technology projects. These are geared to providing the Bank with state-of-the-art capability in each operational area and to achieving greater understanding of our customers' banking patterns and requirements. As a result, we are able to respond more efficiently and effectively to their needs.

During the year, we introduced a customised trade service for 150 top corporate clients which guarantees an individualised approach to their specific requirements. This has resulted in a high level of customer satisfaction and improved market share.



For NCB, 'total relationship management' means pooling resources and expertise to create tailor-made solutions to our customers' needs. It also means providing a full range of banking services.





NCB's in-depth market coverage is supported by a combination of state-of-the-art technology and a team of experienced dealing professionals.

Competitive pricing and excellence of execution are the keys to delivering sophisticated solutions for a growing customer base.

Round the clock, NCB plays an active role in the world's treasury and capital markets.

A number of key transactional processes, such as clearing, transfers and collections, were centralised to improve controls, consistency of service and efficiency. In doing so, operating errors were reduced by half and processing times have become among the best in the Kingdom.

NCB is the first bank in Saudi Arabia to be ISO certified for its processing technology which demonstrates our commitment to maintaining the security of our customers' data and reflects the importance of creating systems that deliver excellence.

In the future, we will continue to monitor closely technological advancements worldwide and introduce procedural efficiencies which generate ever greater levels of customer satisfaction. Specifically, we will concentrate upon our on-line banking service and increasing the number and functionality of our ATMs.

Audit

Promoting and maintaining a comprehensive control structure across the Bank's entire range of operations is the Audit Division's primary task. During the year, divisional representatives worked closely with SAMA to develop Kingdomwide money laundering regulations. These have led to additional safeguards

being designed into the infrastructure of the Bank with the creation of the division's Money Laundering Control Unit. Following the publication of draft investment regulations by SAMA, the division has spearheaded a fiduciary awareness programme, including the development of a set of standards which encapsulate our core values of customer service and professional 'best practice'.

Consultancy has become an increasing part of Audit's function within the Bank. The provision of such services has now been put on a formal footing with Audit represented on a number of policy review committees.

Audit remains at the leading edge in terms of automation and its real-time links to the Bank's mainframes are routinely used in audits to improve efficiency and accuracy. Specialist software has been deployed to protect against fraud and minimise the impact of such incidents. Considerable resources continue to be allocated to reviewing the new computer systems being developed by and for the Bank to ensure a positive impact on the quality of customer service.

Professional development has continued to be a priority within the division with instructional visits from industry experts from around the globe. Additionally, a number of team building programmes have been carried out. The scope of audits has increased considerably and updated standards have led to greater effectiveness in their performance. 1997 will see Audit enhancing its pro-active role, addressing change particularly in the dynamic areas of credit, treasury and technology. In a move to enhance internal communications, the division will act as a pilot site for the Bank's intranet project, plans for which are far advanced.

Chief Operating Officer's Review of Operations

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International Banking

Under the direction of a small Head Office team, International Banking operates through 2 branches and 5 representative offices. Each is responsible for business development in its own geographic area.

In essence, International has two quite distinct groups of customers. The first are international financial institutions, sovereign entities and international companies wishing to transact business with Saudi Arabia. No less important is the second group, consisting of other units within the Bank, with whom extremely close liaison is maintained to make sure the international requirements of the Bank's customers are fully satisfied.

In 1996, a comprehensive review of the Bank's correspondent banking systems and procedures was completed. This has led to substantial improvements in counterparty management and sets the pace for the Bank to become Saudi Arabia's leading provider of correspondent banking services.

The development of trade business has been a priority and measures were taken to improve the service provided by our correspondents. During the year the Bank also became an accredited agency for the Arab Trade Fund.

NCB's branch in Bahrain performed well in a highly competitive regional market and undertook significant oil financings. The branch is rapidly becoming a major player in the growing regional market for transactions structured according to Islamic principles. We are also looking to develop a local forfaiting market to support the trade flows of our regional neighbours.

The Beirut branch had an excellent year, following a major repositioning in the local market. The branch's strategy is to concentrate on the flow of trade and financial transactions taking place between Saudi Arabia and Lebanon. An enhancement of the technology links between Head Office and Beirut is under way which will enable customers in Beirut to access the Bank's full range of services.

As we enter 1997, the Bank's international strategy will be reviewed, in furtherance of a desire to grow the Bank's international business from the strong domestic position it currently occupies.

Finance & Accounting

Providing timely and accurate information is Finance & Accounting's primary responsibility. This function is central to the monitoring of performance and the smooth running of the Bank's operations.

The bankwide Single Unified General Ledger project, begun in 1995, is a major undertaking which will substantially enhance the computerised accounting systems and facilitate the analysis of financial data. Significant progress was made in improving efficiency and building a modern management information system which will meet the Bank's complex reporting requirements.

Overall, it has been a year in which Finance & Accounting has made great strides in automating the centralised accounting functions and accelerating the financial reporting and control processes. The Bank's Internal Control Department was successfully integrated and rationalised, leading to a marked improvement in performance. The financial and budget reporting processes have now been fully standardised across the Bank and the computerised general ledger was also converted to a UNIX platform. Training has played a major part and will continue to do so in the year ahead.

For 1997, our main objectives will be to complete the Single Unified Ledger project and streamline still further the management information systems and reporting process.



Most routine transactions

can now be processed through
our touch screen ATMs.

The increasing
sophistication of our
ATMs not only benefits
our own customers, but
also permits holders of

any MasterCard or Visa
card to use the Bank's
Al-Ahli Express network
day or night.

Chief Operating Officer's
Review of Operations

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General Support Services

In a period of far reaching operational and cultural change, NCB's General Support Services remains focused on providing a sophisticated infrastructure, top quality administrative and legal back-up and effective human resource management.

Training and career development are continuing processes in our drive to secure, encourage and retain the most able and qualified manpower at all levels. Staff undergo regular career enhancing programmes in-house, within the Kingdom and also overseas. Our competitive compensation packages are commensurate with the high standards we demand, and reflect the quality of staff we recruit.

During 1996, 214 Saudi graduates were enrolled in our intensive one year traineeship, part of which is spent at one of the Bank's three training facilities across the Kingdom. A further 54 Saudi banking professionals were recruited and 52 senior managers attended executive development programmes in the USA.

The introduction of new regulations by SAMA and the overriding need to maintain the highest standards of financial probity have raised many important issues which the Legal Services department has vigorously addressed.

Administrative services have undergone a number of basic changes which have positively impacted upon every aspect of the Bank's operations, permitting the optimum use of our resources in terms of equipment, systems and manpower. Outsourcing non-banking services such as mail delivery, cash in transit and the distribution of printed material continues to be advantageous in terms of cost savings and improving levels of service.

In 1996, a policy of centralised purchasing was adopted which showed immediate cost savings. Centralisation has also given much tighter control over the implementation and maintenance of a consistent corporate image which positively influences public and customer perceptions of the Bank and its operations.

Communications and Social Responsibility

Open communications and healthy dialogue are fundamental to the way NCB operates. It is essential for us to keep in touch with a huge cross-section of people which includes customers, employees, correspondent banks, business partners, regulators and the media. We aim to improve mutual understanding and create a receptive environment in which the Bank can carry out its business efficiently and profitably.

In 1996, both the quality and extent of our communications programme rose substantially. Sales literature, public relations and advertising were all subject to the

discipline of a coordinated marketing approach to ensure a high level of consistency and maximum effectiveness across the full range of activities.

During the year, we organised and hosted a series of well attended and widely reported seminars, including the Kingdom's first on Banking and the Internet and a major presentation by the British Invisibles Group. NCB also participated in a number of international events, ranging from MBC's Lebanon Telethon to the 4th Gulf Economic Forum Annual Conference, held in Bahrain, the Arab Capital Markets Conference and the Arab Banking Summit.

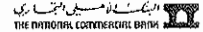
To improve internal communications and foster greater product awareness among staff, Public Relations introduced a competition for employees, entitled 'Going for Gold', which attracted an overwhelming response. As a result of this the event will be repeated in 1997.

We do not underestimate the role an institution such as The National Commercial Bank can play for the good of society and the benefit of the community. During 1996, the Bank supported a wide array of worthwhile and deserving causes, locally, nationally and internationally. These included the Islamic Relief Organisation, the Handicapped Children's Organisation, National Civil Defence Day and National Health Day. Our involvement in such causes and events remains firm.

Charitable donations made during the year amounted to SR 49 million.

Finally, I would like to reaffirm NCB's commitment to its customers, business partners and employees, the Kingdom of Saudi Arabia and its people. We intend to remain in tune with their needs and the challenging times in which we live.

Auditors' Report

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1996

To the Partners of The National Commercial Bank:

We have audited the balance sheet of 'The National Commercial Bank (a general partnership) (the 'Bank') as of 31st December 1996 and the related statements of income, changes in partners' equity, and cash flows for the year then ended, including notes 1 to 21 which form part of these financial statements. These financial statements, which have been derived from computerised accounting records maintained in Arabic in the Kingdom of Saudi Arabia, are the responsibility of the Bank's management and have been prepared by them in accordance with the requirements of the Banking Control Regulations and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express our opinion on the financial statements.

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Bank as of 31st December 1996 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency and International Accounting Standards; and
- comply with the requirements of the Banking Control Regulations and the Bank's Partnership Deed in so far as they affect the preparation and presentation of the financial statements.

Dr Abdullah Abdulrahman Baeshen
Registration No. 66

Al Sayed El Ayouty
Registration No. 36

Whinney Murray & Co.
Chartered Accountants

Al Sayed El Ayouty & Co.
Accountants and Auditors

Jeddah: 26 Ramadan 1417 H
Corresponding to: 4th February 1997

Balance Sheet

as at 31st December 1996
(in thousands of Saudi Riyals)

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Assets	Note	1996	1995
Cash and balances with SAMA	3	2,620,947	2,836,948
Due from banks	4	12,678,095	13,182,997
Trading securities	5	1,314,678	270,287
Loans and advances, net	6, 18	38,883,905	39,366,248
Investment securities, net	7	18,844,407	15,564,773
Fixed assets, net	8	1,713,133	1,642,551
Other real estate	9	1,943,182	1,799,408
Other assets	10	2,054,241	1,996,499
TOTAL ASSETS		80,052,588	76,659,711
Liabilities and partners' equity			
Liabilities			
Customers' deposits	11, 18	58,004,080	55,920,415
Due to banks	12	11,430,821	10,792,345
Other liabilities	13	2,962,847	2,674,615
TOTAL LIABILITIES		72,397,748	69,387,375
Partners' equity			
Capital		6,000,000	6,000,000
Statutory reserve	14	1,500,871	1,272,120
Retained earnings		153,969	216
Total partners' equity		7,654,840	7,272,336
TOTAL LIABILITIES AND PARTNERS' EQUITY		80,052,588	76,659,711
Contra accounts	15, 18	124,192,701	99,470,392

Khalid Salim Bin Mahfouz
Chairman and General Manager

The attached notes 1 to 21 form part of these financial statements.

Statement of Income



for the year ended 31st December 1996
(in thousands of Saudi Riyals)

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1996

Income from major operations	Note	1996	1995
Special commission income		3,618,593	3,557,366
Foreign exchange		91,986	85,534
Gains on trading securities		77,089	69,770
Income from investment securities		1,168,885	1,118,836
Gains on other real estate	16	25,433	18,972
Banking services		291,643	185,678
Other		46,675	41,433
TOTAL INCOME FROM MAJOR OPERATIONS		5,320,304	5,077,589
Expenses of major operations			
Special commission cost		2,432,835	2,673,226
Provision for loan losses	6	450,614	302,816
Salaries and other staff-related costs		819,208	778,695
Depreciation of fixed assets and other real estate	8, 9	143,408	117,103
Other general and administrative expenses		505,158	498,380
Total expenses of major operations		4,351,223	4,370,220
NET INCOME FROM MAJOR OPERATIONS		969,081	707,369
Other income (expenses)			
(Losses)/gains on investment securities	17	(21,776)	107,209
Gains/(losses) on disposal of fixed assets		1,066	(2,705)
Income from trading securities		9,087	—
Other income/(expenses)		30,915	(41,236)
Donations and charitable contributions		(49,079)	(57,845)
Zakat		(24,287)	(12,504)
		(54,074)	(7,081)
NET INCOME		915,007	700,288

The attached notes 1 to 21 form part of these financial statements.

Statement of Changes in Partners' Equity

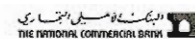
for the year ended 31st December 1996
(in thousands of Saudi Riyals)

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	Note	Capital	Statutory reserve	Retained earnings
1996				
Balance at beginning of the year		6,000,000	1,272,120	216
Net income		–	–	915,007
Transfer to statutory reserve	14	–	228,751	(228,751)
Profit for distribution		–	–	(532,503)
BALANCE AT END OF THE YEAR		6,000,000	1,500,871	153,969
1995				
Balance at beginning of the year		6,000,000	1,097,048	–
Net income		–	–	700,288
Transfer to statutory reserve	14	–	175,072	(175,072)
Profit for distribution		–	–	(525,000)
BALANCE AT END OF THE YEAR		6,000,000	1,272,120	216

The attached notes 1 to 21 form part of these financial statements.

Statement of Cash Flows



for the year ended 31st December 1996
(in thousands of Saudi Riyals)

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1996

Cash flows from operating activities:	1996	1995
NET INCOME	915,007	700,288
Adjustment of net income to net cash flow from operating activities:		
Loss on valuation of investment securities	--	150,000
Depreciation of fixed assets and other real estate	143,408	117,103
(Gain)/loss on disposal of fixed assets	(1,066)	2,705
	1,057,349	970,096
Net decrease/(increase) in operating assets:		
Due from banks	504,902	(2,804,357)
Trading securities	(1,044,391)	87,304
Loans and advances	482,343	(6,322,710)
Other real estate	(151,592)	43,479
Other assets	(57,742)	(480,743)
Increase in operating liabilities:		
Customers' deposits	2,083,665	3,125,966
Due to banks	638,476	3,235,828
Other liabilities	280,729	564,035
Net cash generated from/(used in) operating activities	3,793,739	(1,581,102)
Cash flows from investing activities:		
Net (increase)/decrease in investment securities	(3,279,634)	2,173,194
Purchase of fixed assets	(224,459)	(282,321)
Proceeds from disposal of fixed assets	19,353	3,318
Net cash (used in)/generated from investing activities	(3,484,740)	1,894,191
Cash flows used in financing activities:		
Profits paid	(525,000)	(434,241)
Net decrease in cash and balances with SAMA	(216,001)	(121,152)
Cash and balances with SAMA at beginning of the year	2,836,948	2,958,100
CASH AND BALANCES WITH SAMA AT END OF THE YEAR	2,620,947	2,836,948

The attached notes 1 to 21 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31st December 1996

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1. General

The National Commercial Bank (the 'Bank') was established as a general partnership by a Royal Decree in Rajab 1369 H (corresponding to May 1950) and was registered under the commercial registration No. 1588 in Dhul Hijja 1376 H (corresponding to July 1957).

The objectives of the Bank are to provide all types of banking services. The Bank operates through 253 branches (1995: 250 branches) in the Kingdom of Saudi Arabia and two branches overseas.

2. Summary of significant accounting policies

(a) Regulatory

The Bank is subject to the Companies Regulations and the Banking Control Regulations in the Kingdom of Saudi Arabia. The financial statements are prepared in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency (SAMA), the requirements of the General Presentation and Disclosure Standard issued by the Ministry of Commerce and International Accounting Standards.

(b) Accounting convention

The financial statements are prepared under the historical cost convention.

(c) Securities portfolios

The Bank maintains two separate and distinct securities portfolios, namely 'investment securities' and 'trading securities'. The designation is made by the Bank's management between the two portfolios at the time of purchase and no transfers are made between them after such date unless the management has justifications for such transfers.

(i) Trading securities

Securities purchased for trading purposes are recorded at cost of acquisition at the date of purchase and are marked to market at the balance sheet date. The realised and unrealised gains or losses are included in income from major operations. Income from these securities is classified as other income.

(ii) Investment securities

Securities acquired by the Bank for the purpose of investment are stated in the balance sheet at cost adjusted for amortisation of premiums and accretion of discounts, net of provision for permanent decline in value.

Amortisation and accretion are computed using the straight-line method over the remaining maturity period. The amortised premium and discount and the income earned by the Bank on these securities are included under income from major operations.

In case of a permanent diminution in the value of any individual security, a provision is made for the amount of diminution. Such provisions, as well as gains and losses arising on disposal of investment securities, are classified as other income/(expense).

(d) Provision for loan losses

Provision is made against specific loans and advances following a study of the portfolio that takes into account the recoverability of those debts and the general economic conditions. Such provision is charged to expenses of major operations.

Loans and advances are written off only in circumstances where all possible means of collection have been exhausted and after taking into account the expected recoveries.

Provision for loan losses is deducted from loans and advances in the balance sheet.

(e) Fixed assets

Fixed assets are stated in the balance sheet at cost net of accumulated depreciation. Freehold land is not depreciated. The cost of other fixed assets is depreciated using the straight-line method over their expected useful lives, based on the following annual percentage rates:

Buildings	2.5%
Furniture, cars and equipment	10% to 25%

The cost of buildings set up on leasehold land is depreciated over the lease period.

(f) Other real estate

The Bank acquires certain real estate against settlement of overdue loans and advances. Such real estate is recorded at the lower of net value of outstanding loans and advances and the fair current value of the acquired real estate at the settlement date.

The loss in value arising on periodical valuations of other real estate and gains/losses on disposal are included in income from major operations.

The cost of buildings included under other real estate is depreciated using the straight-line method at an annual rate of 2.5%.

Other real estate is stated in the balance sheet net of accumulated depreciation and provision for decline in book value.

(g) Income recognition

Income and expenses are recognised on an accrual basis. However, income on loans and advances classified as non-performing is recognised on a cash basis until the loan or advance is reclassified as performing, whereupon the recognition of income reverts to an accrual basis.

Notes to the Financial Statements



for the year ended 31st December 1996

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(g) Income recognition (continued)

Income from Islamic products is generally recognised on an accrual basis except for income from Musharakah transactions, which is recognised on a cash basis.

Accumulated special commission in suspense is deducted from loans and advances in the balance sheet.

(h) Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the rates of exchange prevailing at that date.

Realised and unrealised gains and losses on exchange are credited or charged to income from major operations.

(i) Financial instruments

Financial instruments include both on and off-balance sheet instruments.

On-balance sheet financial instruments

On-balance sheet financial instruments comprise cash, balances with SAMA, due from banks, trading securities, loans and advances, investment securities, certain other assets, customer deposits, due to banks and certain other liabilities.

The fair values of on-balance sheet financial instruments, except for investment securities and loans and advances, are not significantly different from the carrying values included in the financial statements. The fair value of the investment securities is based on quoted market prices when available, pricing models in the case of certain fixed rate bonds or estimated fair values for non quoted securities. Due to time and cost constraints and no readily available market, it is not practical to determine the fair value of loans and advances to customers with sufficient reliability.

The maximum credit risk from on-balance sheet financial instruments is equal to the carrying value disclosed in the financial statements excluding fair values of collateral received.

Off-balance sheet financial instruments (contra accounts)

Off-balance sheet financial instruments comprise undertakings to grant letters of credit, letters of guarantee, commitments to purchase and sell foreign currencies, commission rate and foreign currency related swaps and other miscellaneous contingent liabilities.

The Bank enters into forward transactions, swaps and options to hedge the risks accompanying the management of its assets and liabilities, or for trade purposes, and also on behalf of customers.

Forward foreign exchange contracts are recorded in Saudi Riyals at the spot rates prevailing at the deal date. Premiums and discounts relating to the forward foreign exchange contracts are amortised or accreted on a straight-line basis over the period of the contract. Contracts outstanding at the balance sheet date are valued at the spot exchange rate prevailing at that date. Realised and unrealised gains and losses on exchange are credited or charged to income from major operations.

Other financial instruments concluded to hedge asset and liability risks are treated in the same manner as that adopted in respect of the item hedged. Commission income/expense from such instruments is included in income from major operations. Transactions concluded for trade purposes are marked to market. Realised and unrealised gains or losses are included in income from major operations.

The fair value of off-balance sheet financial instruments is determined on the basis of market values.

The maximum credit risk from off-balance sheet financial instruments is substantially less than the carrying values in the balance sheet excluding fair values of collateral received.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the accompanying balance sheet when a legally enforceable right to set off the amounts exists and when the Bank intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Risk management

The Bank's management controls risks associated with financial instruments by hedging risk exposures, by avoidance of undue concentration of risk and by requirements for collateral to mitigate credit risks.

(j) Employees' end of service benefits

Benefits payable to the employees of the Bank are provided for in accordance with the guidelines set by the Saudi Arabian Labour Law and the balance is included in other liabilities.

(k) Zakat

Zakat is computed in accordance with the Regulations of the Department of Zakat and Income Tax based on the financial statements and classified as other expense in the income statement.

Notes to the Financial
Statements (continued)

for the year ended 31st December 1996
(in thousands of Saudi Riyals)

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3. Cash and balances with SAMA	1996	1995
a) Cash in hand	589,283	865,527
b) Balances with SAMA		
Statutory deposit	2,010,158	1,916,937
Current accounts	21,506	54,484
	2,620,947	2,836,948

In accordance with Article (7) of the Banking Control Regulations, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its call, time, savings and other deposits calculated at the end of each Gregorian month.

4. Due from banks	1996	1995
a) Domestic		
Call accounts	269,995	147,667
Time deposits	2,106,118	1,171,770
	2,376,113	1,319,437
b) Foreign branches of domestic banks		
Time deposits	416,250	591,403
c) International		
Call accounts	974,581	1,378,824
Time deposits	8,911,151	9,893,333
	9,885,732	11,272,157
	12,678,095	13,182,997

5. Trading securities	1996	1995
a) Domestic		
Quoted shares	16,634	16,580
Units in investment funds managed by the Bank	74,085	42,547
	90,719	59,127
b) International		
Externally managed portfolios (shares, bonds and others)	1,223,959	211,160
	1,314,678	270,287

The cost of acquisition of trading securities as at 31st December 1996 amounted to SR 1,224 million (1995: SR 263 million).

6. Loans and advances	1996	1995
a) Domestic		
Private sector		
Real estate	2,429,622	2,796,034
Agriculture	184,221	195,209
Manufacturing	2,124,456	1,512,869
Trading	9,663,945	10,479,384
Services and contracting	7,756,959	5,977,447
Other	2,693,166	2,862,538
Government, government agencies, quasi government and other public institutions	18,316,935	18,924,819
	43,169,304	42,748,300

Notes to the Financial
Statements (continued)

for the year ended 31st December 1996
(in thousands of Saudi Riyals)

البنك الأهلي التجاري
THE NATIONAL COMMERCIAL BANK OF SAUDI ARABIA

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6. Loans and advances (continued)	1996	1995
b) International		
Private sector		
Other	603,367	778,634
Government, government agencies, quasi government and other public institutions	228,318	369,353
Banks	195,559	410,342
	1,027,244	1,558,329
	44,196,548	44,306,629
Provision for loan losses and accumulated commission in suspense	(5,312,643)	(4,940,381)
	38,883,905	39,366,248

Total non-performing loans and advances on which no income was recognised amounted to SR 7,952 million (1995: SR 7,417 million). In addition to the above provision, the Bank has collateral or other securities against these loans and advances.

The movement in the provision for loan losses and accumulated commission in suspense is as follows:

	1996	1995
Balance at beginning of the year	4,940,381	4,536,424
Amounts written off in settlement for:		
– real estate which devolved to the Bank	(87,644)	(10,070)
– other	(394,906)	(235,148)
Provided during the year:	450,614	302,816
Commission suspended during the year	404,198	346,359
BALANCE AT END OF THE YEAR	5,312,643	4,940,381

7. Investment securities, net	1996	1995
a) Domestic		
Shares – net of provision of SR 150 million (1995: SR 150 million)	838,850	784,378
Fixed rate bonds	9,150,938	6,549,767
Fixed rate treasury bills	1,162,173	1,994,818
	11,151,961	9,328,963
b) International		
Shares – net of provision of SR 19 million (1995: SR 28 million)	71,265	82,830
Fixed rate treasury bonds	4,915,866	4,580,192
Other fixed rate government bonds	309,066	423,707
Fixed rate commercial bonds	2,396,249	1,149,081
	7,692,446	6,235,810
	18,844,407	15,564,773

The market/fair value of investment securities as at the balance sheet date amounted to SR 19,121 million (1995: SR 15,753 million).

**Notes to the Financial
Statements (continued)**

for the year ended 31st December 1996
(in thousands of Saudi Riyals)

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8. Fixed assets, net	Land	Buildings	Furniture, cars and equipment	Total
Cost				
Balance at beginning of the year	304,189	1,458,302	637,998	2,400,489
Additions	4,140	75,653	144,666	224,459
Disposals	—	(14,870)	(35,216)	(50,086)
Balance at end of the year	308,329	1,519,085	747,448	2,574,862
Accumulated depreciation				
Balance at beginning of the year	—	396,375	361,563	757,938
Additions	—	36,910	98,680	135,590
Disposals	—	(7,381)	(24,418)	(31,799)
Balance at end of the year	—	425,904	435,825	861,729
Net book amounts:				
AT 31ST DECEMBER 1996	308,329	1,093,181	311,623	1,713,133

At 31st December 1995	304,189	1,061,927	276,435	1,642,551
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9. Other real estate	1996	1995
Balance at beginning of the year, net	1,799,408	1,850,507
Additions	171,267	18,399
Disposals, net	(19,675)	(61,878)
Depreciation on buildings for the year	(7,818)	(7,620)
BALANCE AT END OF THE YEAR, NET	1,943,182	1,799,408

10. Other assets	1996	1995
Customers' liabilities on acceptances	797,616	655,166
Accrued commission receivable	797,413	917,612
Other	459,212	423,721
	2,054,241	1,996,499

11. Customers' deposits	1996	1995
a) Domestic		
Call accounts	25,161,600	23,257,753
Saving	677,658	738,446
Time deposits	12,661,071	11,620,133
Other	3,242,281	2,454,362
	41,742,610	38,070,694
b) International		
Call accounts	46,509	47,924
Saving	10,504	13,227
Time deposits	16,069,505	17,614,340
Other	4,693	2,112
	16,131,211	17,677,603
c) Accrued commission payable	130,259	172,118
	58,004,080	55,920,415

Customers' deposits include foreign currency deposits amounting to SR 15,154 million (1995: SR 17,823 million).

Customers' deposits include an amount of SR 383 million (1995: SR 128 million) against sales of fixed rate bonds under repurchase agreements.

Notes to the Financial Statements (continued)

for the year ended 31st December 1996
(in thousands of Saudi Riyals)



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1996

12. Due to banks

	1996	1995
a) Domestic		
Call accounts	104,891	208,499
Time deposits	4,846,816	4,851,750
	4,951,707	5,060,249
b) Foreign branches of domestic banks		
Time deposits	255,000	1,096,250
c) International		
Call accounts	984,824	916,623
Time deposits	5,161,745	3,612,637
	6,146,569	4,529,260
	11,353,276	10,685,759
d) Accrued commission payable	77,545	106,586
	11,430,821	10,792,345

Due to banks includes an amount of SR 2,691 million (1995: SR 1,878 million) against sales of fixed rate bonds under repurchase agreements.

13. Other liabilities

	1996	1995
Acceptances outstanding	797,616	655,166
Profit for distribution	532,503	525,000
Other	1,632,728	1,494,449
	2,962,847	2,674,615

14. Statutory reserve

In accordance with the Banking Control Regulations, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. This reserve is not available for distribution.

15. Financial instruments

On-balance sheet financial instruments – commission rate risk

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such rate risk is the Bank's lending, funding and investment activities, where fluctuations in commission rates are reflected in commission margins and earnings. The Bank also faces such rate risk in its trading activities, where rate changes may result in fluctuations in portfolio market values.

Commission rate gap is a common measure of rate risk. A positive gap occurs when more assets than liabilities are subject to rate changes during a prescribed period of time. A negative gap occurs when liabilities exceed assets during a prescribed period of time.

The commission rate gap position and term to maturity for on-balance sheet financial instruments, as at 31st December 1996, is as follows:

Notes to the Financial
Statements (continued)

for the year ended 31st December 1996
(in thousands of Saudi Riyals)

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15. Financial instruments (continued)

15. Financial instruments (continued)	Term to Maturity			Non-commission Sensitive	Total
	Within 3 months	3 to 12 months	Over 1 year		
Assets					
Cash and balances with SAMA	–	–	–	2,620,947	2,620,947
Due from banks	9,673,976	2,630,110	2,458	371,551	12,678,095
Trading securities	78,462	–	976,499	259,717	1,314,678
Loans and advances, net	23,452,907	8,825,984	6,605,014	–	38,883,905
Investment securities, net	282,308	1,561,191	16,816,850	184,058	18,844,407
Fixed assets, net	–	–	–	1,713,133	1,713,133
Other real estate	–	–	–	1,943,182	1,943,182
Other assets	–	–	–	2,054,241	2,054,241
TOTAL ASSETS	33,487,653	13,017,285	24,400,821	9,146,829	80,052,588
Liabilities and Partners' Funds					
Customer deposits	26,113,688	6,551,905	130,378	25,208,109	58,004,080
Due to banks	8,819,038	2,062,666	–	549,117	11,430,821
Other liabilities	–	–	–	2,962,847	2,962,847
Partners' funds	–	–	–	7,654,840	7,654,840
TOTAL LIABILITIES AND PARTNERS' FUNDS	34,932,726	8,614,571	130,378	36,374,913	80,052,588
On-balance sheet gap position	(1,445,073)	4,402,714	24,270,443	(27,228,084)	–
Off-balance sheet gap position	550,000	(287,500)	(262,500)	–	–
Combined gap position	(895,073)	4,115,214	24,007,943	(27,228,084)	–
CUMULATIVE GAP POSITION	(895,073)	3,220,141	27,228,084	–	–

The maturities set out in the above table are based on contractual re-pricing or maturity dates, whichever is earlier. The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, which are used to manage commission rate risk.

Off-balance sheet financial instruments (contra accounts)

Term to maturity for off-balance sheet items as at 31st December 1996 is as follows:

	Term to Maturity			1996 Total	1995 Total
	Within 3 months	3 to 12 months	Over 1 year		
<i>Contingent liabilities:</i>					
Letters of credit	2,807,494	1,019,009	420,514	4,247,017	4,983,547
Letters of guarantee	4,014,211	1,590,763	1,604,690	7,209,664	6,289,372
	6,821,705	2,609,772	2,025,204	11,456,681	11,272,919
<i>Forward foreign exchange contracts:</i>					
Purchases	17,224,511	14,871,253	628,957	32,724,721	40,207,736
Sales	14,991,013	16,202,379	874,682	32,068,074	39,928,090
	32,215,524	31,073,632	1,503,639	64,792,795	80,135,826
<i>Derivative products:</i>					
Commission swap contracts	13,721,125	10,773,374	1,849,912	26,344,411	7,756,521
Forward rate agreements	5,640,988	3,731,250	—	9,372,238	188,000
Future contracts	633,750	2,396,250	765,000	3,795,000	—
Options	3,652,070	4,779,506	—	8,431,576	117,126
	23,647,933	21,680,380	2,614,912	47,943,225	8,061,647
	62,685,162	55,363,784	6,143,755	124,192,701	99,470,392

The maturities set out in the above table are based on contractual re-pricing or maturity dates, whichever is earlier.

The fair value of off-balance sheet financial instruments is not significantly different from the book value.

Notes to the Financial Statements (continued)

for the year ended 31st December 1996
(in thousands of Saudi Riyals)



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15. Financial instruments (continued)

In respect of the commitments for forward foreign exchange, commission rate related contracts and other, the amounts recorded are gross values and do not reflect the extent to which positions may offset one another. The amounts subject to market and credit risks are substantially smaller than the notional amounts. Management does not anticipate any material loss as a result of these contingencies and commitments.

The Bank had a net open foreign exchange position, principally in US Dollars, of SR 3,995 million (1995: SR 2,362 million).

16. Gains on other real estate

	1996	1995
Gain on sale of other real estate	-	1,666
Rental income	25,433	17,306
	25,433	18,972

17. (Losses) gains on investment securities

	1996	1995
(Losses) gains on disposal	(21,776)	257,209
Loss on valuation	-	(150,000)
	(21,776)	107,209

18. Transactions with related parties

During its ordinary course of business, the Bank transacts business with the partners, some members of the General Management Committee and parties related to them. The balances from such transactions as at 31st December 1996 in the balance sheet were as follows:

	1996	1995
Loans and advances	53,519	211,530
Customers' deposits	59,402	252,323
Contra accounts	3,904	33,197

19. Investment services

The Bank provides certain investment management services to its customers. These services include the management of a variety of investment funds in association with professional investment managers. The assets of these funds do not form part of the Bank's assets and, accordingly, are not included in the financial statements of the Bank.

20. Asset and liability maturities

The asset and liability maturities as at 31st December 1996 comprise the following:

	1996		1995	
	Assets	Liabilities	Assets	Liabilities
Less than one month	31,340,526	52,875,735	38,702,081	54,233,192
One month to one year	19,288,997	16,428,788	12,710,881	11,988,600
One to five years	14,570,416	130,378	14,967,356	485,968
Over five years	9,142,093	-	4,840,935	5,000
	74,342,032	69,434,901	71,221,253	66,712,760

The above reflects the contractual maturities of the assets and liabilities, and accordingly does not represent the anticipated maturities based on the Bank's experience of maintaining deposits and managing its liquidity. The maturity profile is monitored by management on a daily basis to ensure adequate liquidity is maintained.

The above asset and liability amounts do not include fixed assets, other real estate and other assets and liabilities, due to the special nature of these accounts.

21. Comparative figures

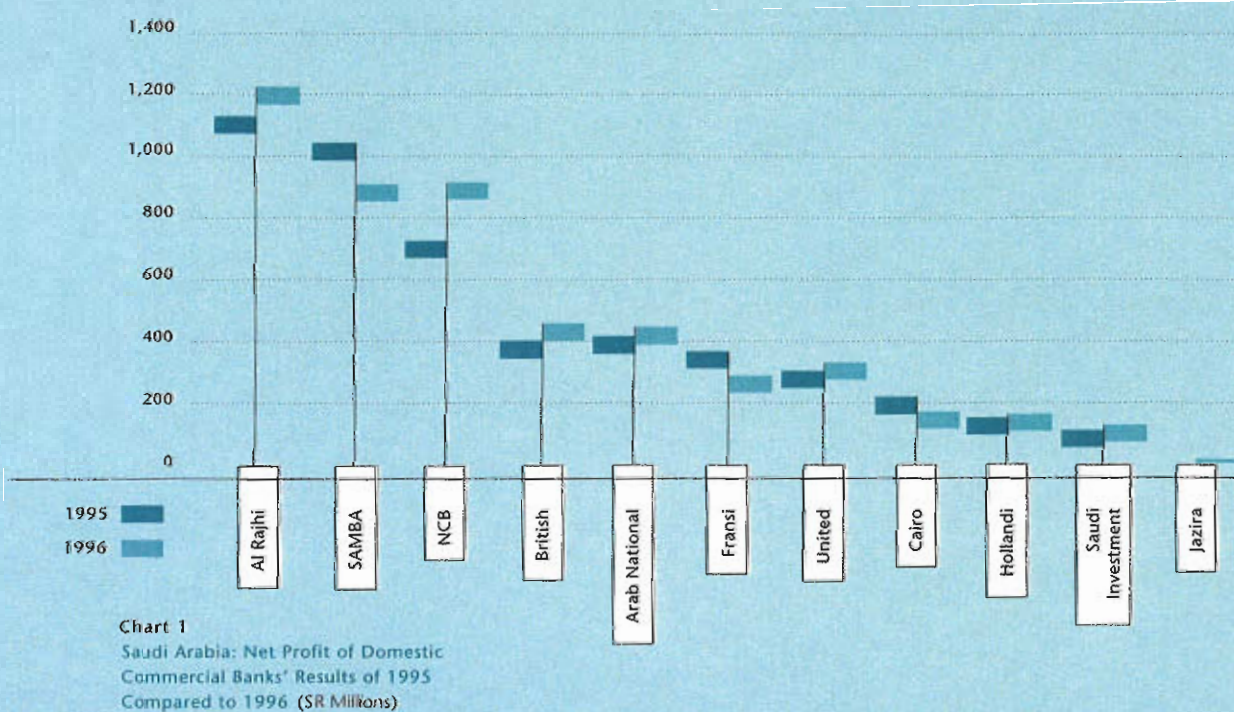
Certain comparative figures have been reclassified to conform with the current year presentation.

Performance of the Saudi Banking Sector: 1996

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The Saudi banking sector performed quite well in 1996, with most banks reporting higher assets and larger profits on the year before. Improving public finance and payment of outstanding arrears by the government in late 1996 boosted overall liquidity conditions and allowed contractors and suppliers to reduce their exposure to banks. Banks are expected to be less restrictive in extending new credit this year, especially to consumers and small to medium sized companies. This, together with lucrative new sources of fee income, should help boost profits in 1997. The non-oil sectors of the Saudi economy are likely to keep on growing modestly while interest rates on the riyal, which move in line with interest rates on the dollar, are forecast to rise slightly this year. Those banks with large retail outlets and sizeable non-interest bearing deposits (eg. Al Rajhi, NCB) will benefit more from such development.

The consolidated income statement of the eleven Saudi banks (all except Riyadh Bank) which have published their results for 1996 indicates a 5.9% increase in net income from SR4,804 million in 1995 to a record SR5,089 million in 1996 (chart 1). This followed increases of 15.8% and 3.6% in 1995 and 1994 respectively for the sector as a whole. The rise in net income was mainly due to a 9.9% decline in special commission or interest expenses, a 2.7% increase in revenues from investment securities and a 14.7% rise in revenues from banking services.



The negative aspects last year were a 3% drop in special commission or interest income and a 62.9% hike in loan provisions. Six banks increased provisions for 1995 compared to the year before, led by SAMBA with a rise in provision of 157%, Saudi Fransi 83.3%, Arab National 72%, NCB 38% and SAIB 33.3%. The eleven reporting banks were able to maintain reasonable control over staff related costs which rose by 4.4%, from SR1,847 million in 1995 to SR2,973 million in 1996.

Of the eleven banks, seven have reported increases in net profits in 1996 compared to the previous year. The largest increase in net profits of 30.7% was reported by NCB, whose net income rose from SR700 million in 1995 to SR915 million in 1996. The spectacular increase in net income last year of the Kingdom's largest bank is partly explained by a 34.2% hike in the difference

Performance of the Saudi Banking Sector: 1996



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1996

between special commission or interest income and special commission or interest expense, a 4.5% increase in income from investment securities and a 57% surge in income from banking services.

Other banks which have reported increases in net profits of 15% or more include SAIB, whose net income rose by 47.1% from SR85 million in 1995 to SR125 million in 1996, Saudi British, up 15.4% and Saudi Hollandi, up 15%. SAIB's improved profitability is explained by increases of 53.5%, 14.7% and 3.9% in income from investment securities, income from banking services and special commission or interest income respectively. Three other banks have reported healthy increases in net income between 1995 and 1996. These include Arab National, whose net income rose by 11.4%, USCB by 10.4% and Al Rajhi (by 8.2%). Declines in net income have been reported by three banks including Saudi Cairo, whose net profits declined by 16% between 1995 and 1996, Saudi Fransi by 14.7% and SAMBA by 14.1%. Al-Jazira has, on the other hand, reported a net profit of SR 14 million for 1996 compared to an almost zero net profit figure for 1995.

The consolidated balance sheet of the eleven banks shows an increase in total deposits of 5.7%, from SR203,980 million at the end of 1995 to SR 215,495 million by the end of 1996, with all the banks registering increases except Saudi Cairo (table 1). This followed an increase of 4.7% for the industry as a whole in 1995. The largest percentage increase in deposits was registered by USCB (20.3%), followed by Saudi British (15%), Saudi Hollandi (14.5%), SAIB (14.4%) and Al-Jazira (13.2%).

Table 1:

Summary Balance Sheet Items of Saudi Banks: 1995-1996 (SR Millions)

	Total Customer Deposits			Total Assets			Total Loans			Loans to Customer Deposits	
	End 1995	End 1996	Change (%)	End 1995	End 1996	Change (%)	End 1995	End 1996	Change (%)	End 1995	End 1996
NCB	55,920	58,004	3.73	76,660	80,053	4.43	39,366	38,884	-1.22	70.40	67.04
SAMBA	30,892	32,476	5.13	40,848	41,283	1.06	17,381	13,849	-20.32	56.26	42.64
Arab National	21,203	23,155	9.21	32,413	34,117	5.26	10,775	8,866	-17.72	50.82	38.29
Al Rajhi	22,690	24,257	6.91	30,663	32,282	5.28	26,054	27,829	6.81	114.83	114.73
Saudi Fransi	17,232	18,520	7.47	27,084	28,799	6.33	9,961	8,655	-13.11	57.81	46.73
Saudi British	18,492	21,264	14.99	26,050	30,726	17.95	10,600	10,342	-2.43	57.32	48.64
Saudi Hollandi	10,054	11,512	14.50	16,109	16,774	4.13	6,787	6,780	-0.10	67.51	58.90
Saudi Cairo	14,202	10,789	-24.03	18,884	16,366	-13.33	4,833	3,949	-18.29	34.03	36.60
USCB	5,549	6,676	20.31	10,936	13,919	8.99	4,318	5,270	22.05	77.82	78.94
SAIB	6,148	7,033	14.39	8,211	9,819	19.58	3,649	4,092	12.14	59.35	58.18
Al-Jazira	1,598	1,809	13.20	4,714	4,440	-5.81	1,293	851	-34.18	80.91	47.04
Total	203,980	215,495	5.65	292,572	306,578	4.79	135,017	129,367	-4.18	66.19	60.03

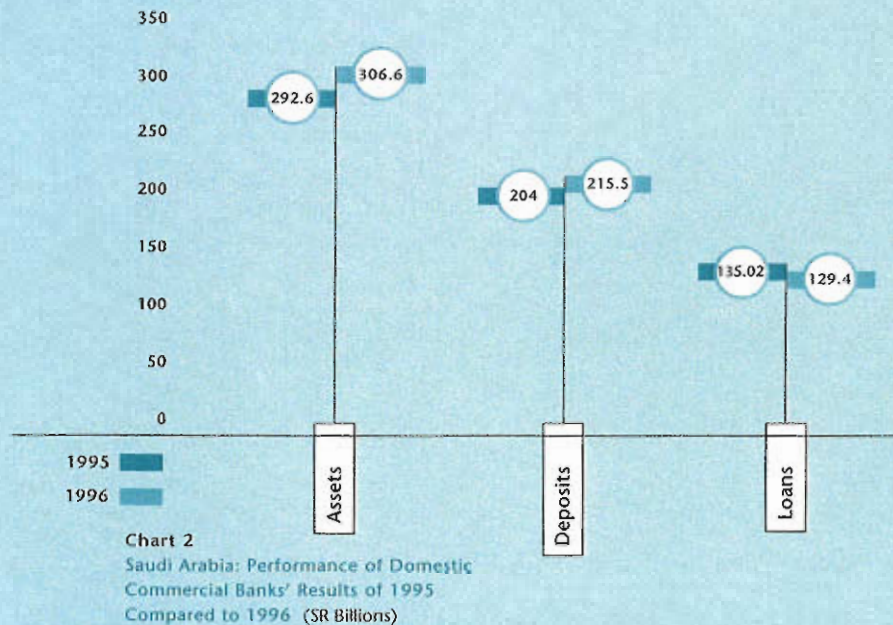
Source: Published financial statements of various banks.

Note: All figures are rounded to the nearest million.

**Performance of the
Saudi Banking Sector:
1996 (continued)**

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Total assets of the eleven reporting banks rose by 4.8% in 1996, from SR292,572 million at the beginning of the year to SR306,578 million at the end (chart 2). The largest percentage increases of 19.6%, 18% and 9% were registered by SAIB, Saudi British and USCB respectively. Moderate increases in total assets were reported by Saudi Fransi (6.3%), Al Rajhi (5.3%), Arab National (5.3%) and NCB (4.4%). Declines in total assets have been reported by two banks, namely Saudi Cairo (13.3%) and Al-Jazira (5.8%).



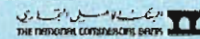
Total loans of the eleven reporting banks declined by 4.2% from SR135,017 million at the end of 1995 to SR129,367 million a year later. This was due to a more conservative lending policy adopted by the industry as a whole in 1996. Of the eleven banks which have published their financial statements for 1996, eight have reported declines in outstanding loans by the end of the year compared to the year before. These include Al-Jazira (34.2%), SAMBA (20.3%), Saudi Cairo (18.3%), Arab National (17.7%), Saudi Fransi (13.1%), Saudi British (2.4%), NCB (1.2%) and Saudi Hollandi (0.1%). USCB, SAIB and Al Rajhi reported increases in loans of 22.1%, 12.1% and 6.8% respectively.

At the end of 1996, the loans to customer deposit ratio for the eleven banks as a whole stood at 60%, compared to 66.2% at the end of 1995. Banks exceeding SAMA's loans to customer deposit ratio guideline of 65% included Al Rajhi (114.7%), USCB (78.9%) and NCB (67%).

Saudi banks are among the most profitable, liquid and highly capitalised in the world. Their average risk asset ratio is put at around 20% compared to a minimum of 8% under the Basle capital adequacy guidelines. However, Moody's seemed to discount the numbers, focusing instead on its perception of "the country's economic and legal uncertainties" in its unsolicited rating. It assigned a sovereign ceiling of Baa3 to the Kingdom, Moody's lowest investment grade category, placing the world's leading oil exporting nation on a par with Slovakia and Poland. The ratings given to the Saudi banks ranged from D to C+.

Total outstanding commercial bank credit stood at SR137.8 billion in the first half of 1996, almost equal to its level at the end of 1995 (table 2). However, compared to a year earlier, outstanding bank credit was 2.4% lower at mid 1996. During the twelve month period between mid 1995 and mid 1996 the largest percentage increase in outstanding bank credit of 225.9% was registered in the utilities sector, as more bank credit was extended to the new utility projects being implemented in the Kingdom. Other sectors which recorded increases in outstanding credit between mid 1995 and mid 1996 include commerce (29.2%), reflecting a clear pick up in imports, services (19.8%), mining and quarrying (9.4%) and manufacturing and processing (5.7%).

Performance of the
Saudi Banking Sector:
1996 (continued)



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Table 2:

Commercial Bank Credit by Economic Activity (SR Millions)

	End 1995	Mid 1996	As % of Total (Mid 1996)	% change Mid 1996 End 1995	% change Mid 1996 Mid 1995
Agriculture and Fishing	1,669	1,242	0.9	-25.6	-44.9
Manufacturing and Processing	12,187	14,077	10.2	15.5	5.7
Mining and Quarrying	558	746	0.5	33.7	9.4
Electricity, Water & Other Utilities	3,569	6,532	4.7	83.0	225.9
Building and Construction	14,369	9,904	7.2	-31.1	-33.5
Commerce	35,031	33,496	24.3	-4.4	29.2
Transport and Communications	5,782	4,944	3.6	-14.5	-4.7
Finance	4,304	6,218	4.5	44.5	-19.6
Services	4,250	5,080	3.7	19.5	19.8
Miscellaneous	31,688	32,825	23.8	3.6	-12.2
Government & Quasi Government	24,452	22,805	16.6	-6.7	-17.6
Total	137,859	137,870	100.0	-	-2.4

Source: SAMA, Money and Banking Statistics, 3rd quarter 1996.

Sectors experiencing declines in outstanding bank credit during the twelve month period since mid 1995 include agriculture and fishing (down 44.9%) and building and construction (down 33.5%). The drop in credit to these two sectors was mainly due to farmers and contractors clearing their overdrafts with banks after getting payments from the government in cash or bonds. The fall in credit to these two sectors suggests that banks chose to put the extra cash into investment securities rather than extending new credit to farmers and contractors. The finance sector experienced a decline in outstanding credit of 19.6% during this period due to a drop in credit card exposure and lending for stock purchases. The government and quasi-government organisations registered a drop in outstanding bank credit of 17.6% due to the higher oil prices recorded in 1996, which improved state finances and reduced the need for commercial bank borrowing. The transport and communications sector registered a decline in outstanding bank credit of 4.7% between mid 1995 and mid 1996.

Compared to its level at the beginning of the year, the largest percentage increase in outstanding bank credit of 83% was recorded in the utilities sector, followed by finance (44.5%), mining and quarrying (33.7%), services (19.5%), manufacturing and processing (15.5%) and miscellaneous activities (3.6%). Declines were registered by the building and construction sector (31.1%), agriculture and fishing (25.6%), transport and communications (14.5%), government (6.7%) and commerce (4.4%) sectors. At the end of June the commerce sector accounted for 24.3% of total outstanding commercial bank credit followed by miscellaneous activities (23.8%), government (16.6%) and manufacturing and processing (10.2%).

The outlook for 1997 is quite encouraging. The banking industry is expected to keep a tight rein on expenses, mainly through streamlining branches and overheads. The Saudisation process will continue and banks will spend more on technology to develop the ATM, phone and computer banking expertise needed to provide low cost banking services in the future. The year will witness the launching of the Electronic Fund Transfer which will consolidate all interbank clearing and settlement in a single, cost effective and highly risk controlled electronic environment. This will open a window of opportunity to develop a wide range of products that will affect retail and corporate businesses, reduce overhead cost and enhance revenues. Banks will have to keep a firm grip on credit quality too. Losses incurred by some banks for credit card lenders are expected to stabilise in 1997, as many banks have cut back on solicitations and tightened standards. There is also a clear trend to attract small to medium size corporate customers who were not given enough attention in the past.

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